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Organization and Operation of the Accounting Division of the Emergency Unemployment Relief Committee in New York City

By A. R. KASSANDER
(*New York Office*)

During the autumn of 1930 the Emergency Employment Committee, generally known as the "Prosser" Committee after its chairman, Mr. Seward Prosser, chairman of the managing committee of the Bankers Trust Co., raised approximately \$8,000,000 for relief of distress among the unemployed of New York City. By the summer of 1931 the funds of the "Prosser" Committee had been exhausted.

Distress among the people of New York City as a result of widespread unemployment was increasing. Not only was unemployment more prevalent, but many men and women who had been able to live on savings during the previous winter, and therefore had not appealed to public or private charity organizations for assistance, had exhausted their resources.

To assist in meeting these conditions a number of prominent citizens, representing leading commercial, financial, civic and social interests, met and formed the Emergency Unemployment Relief Committee.

Mr. Harvey D. Gibson, President of the Manufacturers Trust Company, consented to serve as chairman of the Committee. Mr. Bayard F. Pope, President of Stone & Webster and

Blodget, Inc., became executive vice chairman. Mr. Guy Emerson, Vice President of the Bankers Trust Company, was secretary and Mr. Thomas Cochran, a partner of J. P. Morgan and Company, was appointed treasurer of the Committee. Mr. Harold W. Thorne, of the New York Trust Co., functioned actively as assistant treasurer.

A goal of \$12,000,000 was set for the contemplated fund. As the campaign progressed and more accurate information became available, as to the seriousness of the conditions in the city, it was realized that the Committee could not rest with the realization of this goal and the goal was increased to \$18,000,000.

Active solicitation commenced on October 19, 1931, and was to end the day before Thanksgiving Day. The drive was later extended to December 9, 1931, and by that date the mark of \$18,000,000 in cash and pledges was passed.

The Committee secured office space at 29 Broadway and at the peak of the campaign occupied three complete floors and part of a fourth floor. This space was given to the Committee rent free.

Shortly after the offices were estab-

cations received by the committee into a uniform terminology so that the necessary analysis could be made.

3. To receive and record cash receipts.
4. To establish control figures with respect to subscriptions and cash for the purpose of assuring agreement of the cashier's records with those of the bookkeeping and statistical departments.

It will be noted that in addition to the receipt and recording of cash, this department initially interpreted subscriptions and established a control thereof before passing them to other departments.

The basic record with respect to subscriptions was the so-called "Verification Ticket" which was prepared in sextuplicate for each subscription or payment received. The "Verification Ticket" showed the name and address of the subscriber, amount of subscription, amount of payment, terms of payment in case of instalment pledges and classification with respect to borough, industrial or social group, and further subdivision of the latter classification as to corporations, individuals and employee groups.

The original of the "Verification Ticket" served as the acknowledgment to the donor. Copies were distributed to the bookkeeping and statistical departments and to the Listing Division. One copy was filed with the original correspondence from the subscriber and a copy was used for following up collections of instalment pledges.

Subscriptions and payments were passed from the cashier's department in blocks of approximately twenty-five transactions and continuous control between departments was maintained by blocks.

For the preparation of the "Verification Tickets" there were available fifteen Underwood "Fan-fold" typewrit-

ers using continuous forms and carbons. These machines were loaned to the committee without charge by the Underwood-Elliott Fisher Company, the Federal Reserve Bank and the Manufacturers Trust Company.

General Bookkeeping Department:

The functions of this department were:

1. To establish and maintain the accounts with individual subscribers
2. To post summaries of daily transactions to the general ledger.

For the purpose of keeping the accounts with individual subscribers and recording payments made on pledges, the National Cash Register Company loaned to the committee, without charge, three National Cash Register instalment bookkeeping machines.

Expense Bookkeeping Department:

This department kept pay roll records and disbursed the pay rolls, kept records of expenses with respect to departmental costs and classes of expenditures, audited invoices received from suppliers, kept accounts with suppliers and paid all invoices for operating expenses.

A separate operating ledger was maintained for the purpose of recording the cost of carrying on the work of the committee. Funds were transferred to the cash account of the operating ledger as needed and were charged to an operating control account in the general ledger.

With respect to purchase, expense and pay roll methods, these were developed with two purposes in mind: first, the adequate control of expenditures to assure that such expenditures had been approved by the proper authorities, and that the service for which they had been incurred had in fact been received

by the committee; second, to have available at all times information with respect to the amount of expenditures in various expense classifications with relation to a previously established budget.

The expense bookkeeping department prepared weekly reports of expenses and commitments against the budget. The budget was prepared and expense accounts were kept with respect to seven major divisional classifications of the organization at 29 Broadway, the Women's Committee Headquarters, Harlem Committee Headquarters and the four borough headquarters outside of Manhattan, a total of thirteen major classifications. Within each divisional classification expenses were recorded as to the purpose of the expenditures, twenty-eight expense accounts being used.

The weekly reports of operating expenses and comparison with the budget were prepared on an Elliot Fisher bookkeeping machine, which was loaned to the committee without charge.

The preparation of pay rolls and pay roll checks was facilitated by the use of an "Addressograph."

Employees' time records, especially with respect to overtime, were obtained with "International" time clocks furnished without charge by the International Business Machines Corporation.

Auditing Department: This department was headed by a member of the staff of J. P. Morgan and Co. who was loaned to the committee, and numbered among its personnel representatives from several prominent accounting firms. The services of these men were donated to the committee.

The duties of the department were:

1. To check the acknowledgments mailed to subscribers against the original subscription blank or other communication from the subscriber.
2. To check the original records which were prepared from the subscription blanks against the latter.
3. To continuously verify the agreement of the detailed entries made by the bookkeeping department with the "block" controls established by the cashiers covering subscriptions and cash received and to trace and correct differences.
4. To ascertain at the end of each day that the totals of postings made to subscribers' ledgers were in agreement with the totals on the cashier's blotter and the postings to the general ledger.
5. To perform sundry auditing operations with respect to pay rolls, general expenses and the agreement of subsidiary records with their controlling accounts in the Expense Bookkeeping Department.

Machine Tabulating Department:

The preparation of the very complete and detailed reports which were compiled daily and which are discussed later would have been virtually impossible without the use of electric tabulating machines using punched cards.

This equipment, consisting of printing tabulator, sorter, key punches as well as necessary operating personnel and cards, was donated to the Committee by the International Business Machines Corporation.

The cards were punched from one of the copies of the "Verification Ticket" and at the close of the day the cards were totaled and agreement in total with the books of account was established. The cards were then sorted and tabulated in accordance with the requirements of the statistical department.

Statistical Department: It was the duty of this department to analyze subscriptions by classification and industries and to prepare daily reports thereon, both in tabulated and graphic form. The statistical department also prepared all statistical data covering the progress of the campaign which was used for the basis of large display charts for luncheons and committee meetings, as well as the information from which all outdoor progress displays were prepared.

The department was operated principally as a night shift and each night prepared reports for the activities of the current day, so that the producing departments of the campaign might have on their desks at nine o'clock the following morning the complete story of the previous day's accomplishments.

The statistical reports contained the following information:

Report A—A summary of subscriptions for the current day and cumulatively both as to number of subscriptions and amount of subscriptions, classified in the first instance by boroughs and each borough sub-divided into the classifications of Commerce and Industry, Women's Committee, Special Gifts and Not Otherwise Classified.

Report B—A similar summary to Report A, but broken down in the first instance between Commerce and Industry, Women's Committee, Special Gifts and Not Otherwise Classified. Each of these major classifications was broken down into the results from the various boroughs.

Report C—A summary by boroughs and total classified into 13 amount size divisions; the lowest division being subscriptions less than \$5.00, the larg-

est division, subscriptions over \$500,000.

Report D—A tabulation of the response received from some 25 special forms of appeal which were used at various times during the campaign.

Report E—A schedule of subscriptions reported in A and B under Commerce and Industry, broken down into almost 100 industrial classifications.

Report F—A detailed listing of subscriptions of \$25.00 and over, received during the current day for submission to the press.

Report G—A detailed listing of subscriptions received during the current day in each of the classifications and industrial divisions covered by the summaries. All of the reports, except F and G, disclosed both the number and amount of subscriptions for the current day and cumulatively.

During the peak of the campaign, these reports amounted to over 100 typewritten pages daily.

Mass Canvass: After the campaign was under way and the accounting organization functioning, the directors of the campaign completed plans for the Mass Canvass. Due to the volume of individual contributions which were expected to be received within a period of ten days or two weeks, it was out of the question to build up the regular accounting organization to sufficient strength to handle the anticipated volume. Furthermore, the smaller average size of contributions expected from the Mass Canvass did not justify nor necessitate the same detailed records which were found desirable for the major funds of the campaign. A separate department was, therefore, organized to receive and record mass canvass contributions.

Volume of Transactions: When planning the operation of the Accounting Division, it was necessary to make an estimate of the number of transactions which it would be necessary to handle. It was felt that the number of contributions might exceed by fifty per cent. those of the 1930 campaign of the "Prosser" committee. Actual experience soon showed that these estimates were far too low. Whereas the 1930 campaign produced less than 10,000 subscriptions, the 1931 campaign exclusive of the Mass Canvass, produced 40,000 subscriptions, and including the Mass Canvass, a total of more than 120,000 subscriptions were handled. It is indicative of the soundness of the accounting procedure originally laid out, as well as the flexibility thereof, that in spite of this unexpected volume, the original accounting plan was carried out with no important deviations.

Personnel: At the peak of the campaign, namely, the week of December 9, the Accounting Division numbered a total of 105 employees consisting of 11 volunteers (services donated) and 94 salaried people recruited from the unemployed.

The 105 employees were distributed among the various departments as follows:

Cashier's Department:

Cashier, Assistants and verification clerks	21	
Fanfold machine operators....	9	30
—	—	

General Bookkeeping Department 5

Expense Bookkeeping Department	4	
Auditing Department:		
Auditors	8	
File clerks	6	14
—	—	
Tabulating Department		3
Statistical Department		12
Mass Canvass		28
Miscellaneous:		
Guard	1	
Stenographers and typists.....	7	
Office boy	1	9
—	—	
Total		105

Expense: The total expenses of operating the Accounting Division up to December 31, 1931, amounted to less than two-tenths of one per cent. of the \$18,000,000 subscribed. Of these expenses over eighty per cent. was paid for salaries of clerical staff recruited from the unemployed. The Accounting Division continued to operate after the above date with a greatly reduced staff for the purpose of collecting balances on instalment pledges.

Effective Cooperation: The operation of the division with the complete internal check, detailed daily statistics, and continuous "up-to-dateness" of the records, combined with reasonable operating expenses, would have been impossible without the unsparing and tireless efforts of the entire personnel, the cooperation of business organizations which contributed the services of trained men for key positions, and the use of the most modern office appliances which were loaned to the committee without charge.



Statutory Requirements for Examinations of Banking Enterprises in Massachusetts Subject to State Control and Supervision

By ELLIOT B. HUGHES

(Boston Office)

Banking enterprises in Massachusetts, except national banks and the federal reserve bank, are generally subject to the supervision of the Commissioner of Banks who is at the head of the Division of Banks and Banking in the Department of Banking and Insurance. Such concerns, including persons, partnerships, associations and corporations, are required to submit to the commissioner, annually or at more frequent intervals, reports and statements in such form as he may prescribe.

Examinations Required

Under the general provisions of the law the commissioner is required to examine the affairs of each bank at least once in each year and at any time upon the formal application of five or more officers, trustees, creditors or depositors, ascertain its condition, its ability to fulfill its obligations and whether it has complied with the law and he may whenever he considers it expedient make such further examinations as he deems advisable. He is required to preserve a full record of each such examination, including a statement of the bank's condition, if ascertained, but the results of these examinations are available only for official reference or, in the discretion of the commissioner, to the agencies of the federal government or of other states. He or his representatives may summon the trustees, officers or agents of a bank or any other witnesses and ex-

amine them relative to its affairs and for that purpose may administer oaths. The commissioner may take action with a view to prosecution for violation of any law relative to a bank or its officers or trustees. He shall direct in writing that unsafe or unauthorized practices be discontinued and for refusal to comply with such orders or for abuse of trust, misuse of official position or negligence he may in the case of a savings bank act through the attorney general for the removal of trustees or officers or such other proceedings as the case may require; or he may in the case of any bank after giving a hearing to the directors or trustees thereof, either report to the shareholders or, with the written consent of a special board, publish such facts relative thereto as in his opinion the public interest may require. (G. L. Ch. 167, S. 2, 3, 4 and 5.)

Authority Granted to Commissioner

The general provisions of the law also give the commissioner authority: to prescribe the manner and form of keeping the accounts of a bank, the extent to which they shall be audited and the manner of safeguarding the money and securities (G. L. Ch. 167, S. 6); to cause an appraisal to be made of real estate offered as security whenever it appears that an excessive loan has been made or is about to be made thereon by a trust company, cooperative bank or savings bank, and if the loan is found to be excessive to make such order relative thereto as he deems advisable (G. L. Ch. 167, S. 10, Ch. 168, S. 54); to examine the accounts, books and papers

of certain corporations, persons, partnerships or associations in order to ascertain whether there has been or is violation of the statute prohibiting unauthorized banking and report such violation to the attorney general (G. L. Ch. 167, S. 12 and 13);

to take possession of the property and business of any bank under specifically described unsatisfactory conditions, and thereafter act for and in the name of the bank in all matters pertaining to its affairs or the liquidation thereof, pass upon proposals for resumption of business by the bank or for its dissolution and liquidate its affairs as provided in the statutes (G. L. Ch. 167, S. 22 to 36).

Supervision of Foreign Banks, etc.

Foreign banking associations and corporations are specifically subjected to the supervision of the commissioner of banks and are required to make to him annual or more frequent reports of their condition. There are also provisions for annual or more frequent examinations by him and, if certain unfavorable conditions are found, he is authorized or required to apply for a restraining injunction or other proceedings, including the appointment of receivers. (G. L. Ch. 167, S. 37 to 40.)

Examinations by Certified Public Accountants

These general provisions are amplified or made specifically applicable to the different kinds of banking enterprises in G. L. Ch. 168 to 174 of the general laws which relate, respectively, to savings banks, deposits with others than banks, cooperative banks, credit unions, trust companies, mortgage loan investment companies and bond and investment companies.

The statutes contain no requirement for the examination of these enterprises by certified public accountants except in the case of the savings banks.

As to these the statutes provide that the auditing committee of the bank shall at least once in each year cause an examination to be made by a certified public accountant not connected with the bank, who shall first be approved by the commissioner of banks. There is an optional provision under which the commissioner may, when so requested by the auditing committee, make an examination in place of the one required to be made by a certified public accountant. (G. L. Ch. 168, S. 17 and 18.)

Examinations of Trust Companies

A trust company is required to make sworn returns to the commissioner at such times as he orders, but not exceeding five times in any calendar year, showing accurately the condition of the corporation and setting forth information specified in the statute. The return is required to be in the form of a trial balance in accordance with a blank form furnished by the commissioner and is to be published in a newspaper of the city or town where the corporation is located as directed by the commissioner. The statutes provide that the commissioner shall examine a trust company in the same manner and to the same extent as if it were a savings bank, authorize him to make or cause to be made such further examination of such corporation exercising its powers under appointment as executor, administrator, receiver, assignee, guardian, conservator or trustee as he may consider necessary and require him to make an examination or cause it to be made when ordered by any court of competent jurisdiction. A trust company having foreign branches is required to furnish information concerning such branches to the commissioner upon demand and special examinations

of those branches may be ordered by him at such times as he deems best. Immediately before a meeting of the directors called to consider the declaration of a dividend by the savings department of a trust company, the investment committee shall make or cause to be made an examination of the income, profits and expenses for the six months' period next preceding the date of the proposed dividend and shall report to the directors the estimated net earnings for the period and a copy of the report shall be filed and preserved with the records of the corporation. The treasurer is required to report in writing to the commissioner once each week a statement of the trust company's reserve for each business day of the preceding week. (G. L. Ch. 172, S. 26, 27, 47, 68 and 73.)

Credit Unions

The organization of a credit union includes a supervisory committee of three members which is required to inspect from time to time the securities, cash and accounts of the corporation and keep fully informed of its financial condition. Immediately before a meeting of the directors called to consider the recommendation of a dividend, this committee is required to make a thorough audit of the receipts, disbursements, income, assets and liabilities of the corporation for the fiscal year and to make a full report thereon to the directors which shall be read at the annual meeting and shall be filed and preserved with the records of the corporation. (G. L. Ch. 171, S. 14 and 22.)

Cooperative Banks

The statutes give the commissioner of banks the same duties and powers in

respect to cooperative banks which he has in respect to savings banks and define the scope of investigation to be made in the examination of cooperative banks. A report of the examiner's findings is required to be made to the commissioner by the person in charge of the examination in such form as the commissioner prescribes and a copy is to be rendered to the board of directors. In case of a petition by two or more cooperative banks to consolidate, the statute provides that the commissioner shall at once select a competent auditor to make an examination and report. (G. L. Ch. 170, S. 45 and 46.)

Publication of Statements

The examinations and reports for which the statutes provide appear to be required chiefly to assist the commissioner of banks in his supervision of these companies and to safeguard savings deposits from unauthorized payment of dividends. The requirements as to publication of financial statements are quite limited. Aside from those affecting trust companies and credit unions, heretofore noted, the only such provision is expressed in the statutes relating to savings banks as follows:

At each regular meeting (at least once in three months) the trustees shall cause to be prepared a statement showing the condition of the corporation as it appears upon its books, in the form of a trial balance of its accounts. Such statement shall be entered in a book which shall form a part of the records of the bank and a copy of such statement shall be posted in a conspicuous place in its banking room, where it may easily be read by the public, and shall there remain until the next regular meeting of said board. (G. L. Ch. 168, S. 15.)

*Savings Banks, Auditing Committee,
etc.*

The board of trustees of a savings bank consists of not less than eleven members of the corporation, elected at the annual meetings. It is the auditing committee of the trustees which is charged with the responsibility for annual examinations of these banks by certified public accountants under the following provisions of the statutes :

At the first meeting after their election, the trustees shall appoint an auditing committee of not less than three trustees, of which committee neither the treasurer nor more than one member of the board of investment shall be members, who shall at least once during the twelve months following their appointment, and oftener if required by the commissioner, cause to be made at such time as the commissioner may determine, in such form and manner and by such certified public accountant not connected with said bank as shall first be approved by the commissioner, a thorough examination and audit of the books, securities, cash, assets, liabilities, income and expenditures of the corporation, including an accurate trial balance of the depositors' ledger, for the period elapsed since the preceding examination and audit, or for such other period as the commissioner may prescribe. The said accountant shall personally direct and supervise the making of said examination and audit, except that, with the consent of the commissioner, he may verify a trial balance of the depositors' ledger made by the bank within six months, and, with the consent of the commissioner, such assistance as shall be necessary may be furnished by the bank. The accountant shall report to the auditing committee the result of his examination and audit, and at the next meeting of the trustees thereafter the committee shall render a report, which shall be read, stating in detail the nature, extent and result of the examination and audit, and their report and the accountant's report shall be filed and preserved with the records of the corporation. The committee shall file with the commissioner a copy of the report of the accountant within ten days after its completion. The certified public accountant

and the auditing committee shall certify and make oath that the reports made by them under this section are correct according to their best knowledge and belief. If the committee fails to cause to be made an examination and audit, including an accurate trial balance of the depositors' ledger as herein provided, the commissioner shall cause them to be made by a certified public accountant in such form and manner as he may prescribe, and the expense thereof shall be paid by the bank. (G. L. Ch. 168, S. 17.)

The Commissioner may, when so requested by the auditing committee of any such bank, make a thorough examination and audit of the books, securities, cash, assets, liabilities, income and expenditures of such bank, including an accurate trial balance of the depositors' ledgers, for the period elapsed since the preceding examination and audit, or for such other period as the commissioner may prescribe, or he may verify a trial balance of the depositors' ledgers made by the bank within six months, and may avail himself of such assistance from the officers and employees as he may deem proper. The expense of the audit only shall be borne by the bank, and such examination and audit shall be in place of the one required to be made by a certified public accountant as provided by the preceding section. (G. L. Ch. 168, S. 18.)

The person in charge of the examination shall render to the commissioner a report of his findings, in such form as the commissioner may prescribe, and a copy thereof shall be rendered to the auditing committee within ten days after the original has been submitted to the commissioner. . . . (G. L. Ch. 168, S. 19.)

There is a further provision relating to examinations of savings banks prior to the payment of dividends which is expressed in the statutes as follows :

Immediately before a meeting of the trustees called to consider the declaration of a dividend, the auditing committee shall make or cause to be made an examination of the income, profits and expenses for the six months' period last preceding the date of the declaration of the dividend, and shall report to the trustees the estimated net earnings of said period. No dividend shall be paid unless declared and authorized by the

Some accountants include in the report a statement of income and profit and loss for the period elapsed since the last preceding examination and audit instead of the "transcript of the Profit and Loss account;" also information as to the collection of delinquent interest between the date of examination and the completion of the report. One accountant has made it a practice to include schedules of securities showing the market values against the book values, but this is not required and has not been usual.

The accountant's report to the auditing committee and the committee's report to the trustees are required to be filed and preserved with the records of the corporation. A copy of the accountant's report is to be filed with the commissioner of banks. There is no provision for the publication of such reports.

The treasurer of a savings bank is required (by G. L. Ch. 168, S. 26) to make an annual report to the commis-

sioner, as of the close of business on the last business day of October, showing accurately the condition of the corporation and various details of its affairs specified in the statute. The commissioner publishes in his annual report (under G. L. Ch. 167, S. 9) abstracts of these annual reports including for each bank a list of the officers, a statement of condition, a schedule of securities owned and various statistics of income, expenses, loans, dividends, deposits and withdrawals. The commissioner's report also includes brief statements for other types of banks. There is no other provision for the publication of reports of savings banks except that relating to the posting of statements of condition in the banking rooms under G. L. Ch. 168, S. 15, noted above.

The following form for the report required (by G. L. Ch. 168, S. 48) prior to the declaration of dividends, issued some years ago by the office of the commissioner of banks, may be of interest:

Report of Auditing Committee, on _____ (Date) _____, of Estimated Net Earnings
for the Period of Six Months Ending _____ (Date) _____

1. Accrued interest, dividends and net rents which have been collected to date		\$ _____
2. Proportion of discount and interest paid in advance which has been earned during period		_____
3. Gross earnings to date		\$ _____
4. Expenses to date	\$ _____	
5. State taxes to date	_____	
6. Deficit from operating foreclosed properties to date	_____	
7. Deficit from operating bank building to date	_____	
8. Total deductions	_____	
9. Net earnings of period to date		\$ _____
10. Estimated additional gross earnings for _____ days to end of period	\$ _____	
11. Estimated expenses, etc., for _____ days to end of period	_____	
12. Estimated addition to net earnings before end of period		_____
13. Estimated net earnings for six months		\$ _____
14. Estimated amount to be set apart for guaranty fund		_____
15. Estimated amount available for dividend		\$ _____
16. Estimated amount required for dividend of _____ per cent.		\$ _____

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Foreign Exchange Problems

By H. C. HEISER

(New York Office)

During the past few months, the preparation of financial statements involving consolidation with foreign subsidiaries has caused accountants great concern. The decline in the value of the pound sterling during the latter part of 1931 and the decline in the value of the Canadian dollar has emphasized the importance of the proper method of determining losses due to exchange fluctuations. Anticipating the problems that would arise, the special committee on accounting procedure of the American Institute of Accountants has prepared a report dealing with methods of treatment of foreign exchange losses published in the Institute's bulletin of December 15, 1931.

The recognition of the underlying theories governing the conversion of foreign statements into American dollars does not present many difficulties, but the application of these theories is considerably involved. The accountant who has had to deal with foreign exchange will recall the difficulties encountered due to the lack of informa-

tion which these theories assume to be available.

The suggestions outlined in this article have been prepared with the purpose in mind of minimizing the amount of information necessary in addition to that furnished in the audit report submitted by the accountants abroad.

In the preparation of the balance sheet of foreign subsidiaries, varying rates of exchange should be employed depending on the nature of the particular item. The following general classifications should cover most items that would appear under ordinary circumstances:

Current Assets: The current rate of exchange prevailing at the date of the balance sheet should be used to convert all current assets with the possible exception of inventories. Predicated upon the theory that inventories should be valued at "cost or market, whichever is lower," inventories purchased from the parent company before the decline in foreign currency values may, under certain circumstances, be converted at the rate prevailing before the decline.

	December 31, 1930			D	Additions Year Ended December 31, 1931			G	H	
	A	B	C		E	F			I	
	Pesetas	U. S. Dollars	Average Rate (B÷A)	Pesetas	U. S. Dollars (DxF)	Average of 1931 Rates		Pesetas	U. S. Dollars (GxI)	Rate*
Land	Pts. 100,000	\$ 15,000	\$.15							
Buildings ..	250,000	33,200	.1328	Pts. 5,000	\$ 400	\$.08		Pts. 100,000	\$9,000	\$.09
Machinery...	700,000	70,200	.1003	10,000	800	.08				
Fixtures....	50,000	5,000	.10	300	24	.08				
	Pts. 1,100,000	\$123,400		Pts. 15,300	\$1,224			Pts. 100,000	\$9,000	

Note * Rate (s) prevailing on dates acquired.

The balances at the beginning of the period, shown in columns A and B, should be obtained from the previous balance sheet, assuming that the dollar values represent the cost in American dollars. The average rate should then be computed by dividing the dollar amounts by the foreign currency values (column C.).

Additions during the year should be converted at the average rate for the period. In the above schedule an additional set of columns has been provided so that any large amounts can be segregated and converted at the rates of exchange prevailing at the dates of purchase. This will prevent a distortion of the dollar cost of the additions as computed by using an average rate.

Removals during the period should be converted at the average rate at the beginning of the period. A similar method as outlined for additions may be employed if the removals contain large amounts.

Converting these inventories at the current rate would result in a value below cost. For example, if an English subsidiary purchased goods for \$4,860, representing cost to the parent company, and paid £1,000 at the rate of \$4.86 to the pound, and if at the balance sheet date, after the decline in exchange, the inventory were converted at the current rate, \$3.50 to the pound, the resultant value of \$3,500 would be below actual cost. In this connection it is necessary to determine the rates of exchange used by the subsidiary in recording its purchases. If par or some fixed rate has been used, then the inventory should be converted at that rate, but if the subsidiary has used the current rates prevailing at the dates of purchases then the inventory should be converted at these same rates. For practical purposes an average rate of exchange will have to be used which may be determined in the following manner:

(1) Compute the inventory turnover. For the purpose of illustration let us assume that the turnover is twice a year and, therefore, under normal conditions the inventory at the balance sheet date should have been acquired for the most part during the last six months of the year.

(2) Compute the average rate of exchange for the last six months of the year giving weight, if necessary, to those months during which shipments are heaviest. (See paragraph on current earnings for method of obtaining a weighted average.)

(3) Convert inventory at balance sheet date by rate obtained.

The conversion of the inventory on the above basis, that is, at the exchange rates prevailing before the decline, is permissible only when the foreign selling prices obtainable in dollars exceed the dollar cost by an amount at least sufficient to cover the foreign expenses and preferably to allow some profit.

When converted on this basis the inventory will be stated at domestic cost. If the domestic reproduction cost has declined, the inventory must, of course, be reduced in accordance with the principle of "cost or market, whichever is lower."

Fixed Assets: Since the value at which fixed assets are carried on the books should not be affected by market changes, some record should be maintained by the accountant of the values in American dollars at which land, buildings, machinery, etc., were acquired. The following schedule has been used with reasonable success:

	Removals Year Ended December 31, 1931			December 31, 1931		
	J Pesetas	K U. S. Dollars (JxC)	C Average Rate Dec. 31, 1930	L Pesetas (A+D+G-J)	M U. S. Dollars (B+E+H-K)	N Average Rate (M÷L)
Land						
Buildings				Pts.100,000	\$ 15,000	\$.15
Machinery	Pts.4,000	\$400	\$.10	355,000	42,600	.12
Fixtures	500	50	.10	706,600	70,600	.10
				49,800	4,974	.10
	Pts.4,500	\$450		Pts.1,210,800	\$133,174	

Columns L and M represent the fixed asset accounts in foreign currencies and in American dollars at the end of the period and column N represents the average rate.

Reserves for Depreciation: The following methods of conversion is suggested:

	Balances at Dec. 31, 1931	
	Pesetas Average Rate at Dec. 31, 1931	U. S. Dollars
Buildings	Pts. 35,500	\$ 4,260
Machinery	353,000	35,300
Fixtures	12,000	1,200
	Pts.400,500	\$40,760

In the aforementioned schedule the balances of the reserve accounts at the end of the period have been converted at the average rates of exchange at the end of the period. (Column N in the fixed asset schedule.) It will be noted that when the conversion is made, using this rate, the reserve accounts as expressed in dollars will bear the same ratio to their respective asset accounts in dollars as they bear to their respective asset accounts in foreign currencies.

	Pesetas	U. S. Dollars
Machinery:		
Asset	Pts. 706,000	\$70,600
	<u> </u>	<u> </u>
Reserve	Pts. 353,000	\$35,300
	<u> </u>	<u> </u>
Pct. to asset	50	50
	<u> </u>	<u> </u>

In the preparation of the income account, the same average rates may be used in converting the provisions for depreciation. Assuming that depreciation on machinery of Pts. 70,600 had been provided, or 10 pct. of the December 31, 1931, balance of the asset account and converting this provision at the average rate of \$0.10, the provision expressed in American dollars would be \$7,060 or 10 per cent. of the asset amount expressed in American dollars.

Deferred Charges: Ordinarily these items should be converted at the current rate of exchange. However, unexpired bond discount should be converted at the same rate used for converting the bond liabilities.

Good Will: The rate used to convert good will appearing on the balance sheet of subsidiaries should be fixed so that the dollar amount will not vary from one period to the next. Good will

arising from the purchase of a subsidiary should also remain fixed.

Accounts with Affiliated Companies: Intercompany accounts must of course be brought into agreement for the purpose of elimination. The intercompany accounts should be adjusted for exchange fluctuations as though the companies were not affiliated. The accounts of the debtor company should be adjusted when the account is payable in currency of the creditor company, and the accounts of the creditor company should be adjusted when the account is payable in currency of the debtor company. When the account is payable in currency of neither company, both accounts should be adjusted.

Current Liabilities: The current rate of exchange should be used in converting this class of items.

Noncurrent Liabilities: These items should be converted at the rates applying at the dates the obligations were incurred. The use of the current rate would have the effect of anticipating a profit of exchange.

Capital Stock and Surplus: The capital stock of a foreign subsidiary should be converted at the rate ruling at the date of acquisition of that subsidiary. The balance of surplus at the date of acquisition should be converted at the same rate. This rate should be used at every closing so that the good will factor, if any, in the parent company's investment account will remain constant.

Surplus from the date of acquisition but prior to the current period should be stated at the dollar amounts shown in the previous balance sheet.

Current Earnings: All nominal accounts, with the exception of provisions for depreciation and the opening and closing inventories, should be con-

verted at an average rate of exchange. Probably the most satisfactory average would be an average of monthly rates weighted by monthly sales. This rate is readily obtained as follows:

- (1) Multiply the monthly sales by the rates prevailing at the end of each month.
- (2) Divide the sum of these products by the sum of the monthly sales (in foreign currencies).
- (3) The result is the weighted average rate.

Exchange Losses: The conversion of the various items in the balance sheet at varying rates of exchange will necessitate the insertion of a balancing figure which represents the profit or loss due to exchange fluctuation. A reserve may be set up on the parent company books to cover the determined exchange losses by a charge to current operations. Authorities have expressed the opinion that the provision for exchange losses is a proper charge to current operations.

It should be realized that the methods outlined are only applications of more or less conservative averages to accepted principles and although they can be utilized to great advantage at a time when exchange rates are on the decline, some modifications may have to be made in cases where exchange rates are rising. Care should be exercised when applying any average to ascertain that the results obtained are not violating the rule of conservatism.

Moves Fast

"The average woman has a vocabulary of only eight hundred words," says the *Oakland Tribune*. "It's a small stock, but think of the turnover."

Bank Examinations in Massachusetts

(Continued from Page 13)

The report should be signed by members of the Auditing Committee.

The audits of savings banks are not always limited to the minimum of statutory requirements.

The better managed savings banks maintain elaborate internal auditing routines and provide for more comprehensive examinations by public accountants than the statutes prescribe.

For example, while there is no requirement that the examination of income prior to the declaration of dividends shall be made by a certified public accountant, some savings banks arrange for such examinations in connection with the appointment for the purposes of the statutory examination and audit. There are also arrangements under which interim audits are made, sometimes as frequently as once a month, with occasional unannounced examinations of the cash balances. The examinations made at these frequent intervals are, of course, utilized for and developed into semi-annual income audits and the annual examination and audit required under the statutes.

The Collection Method of a Novice

A retail merchant offered a young man a regular job if he managed to collect an old account against a man who had a reputation for owing everybody.

To the merchant's astonishment the young man returned in half an hour with the money.

"How in the world did you do it?" he gasped.

"I told him," said the young man, "that if he didn't pay me I'd tell all his other creditors that he had done so."

The following editorial appeared in the *New York Herald Tribune* of May 11 and bore the heading "More Light, Says the C. P. A." It indicates that the editor was impressed with the comments made in the president's address at the annual meeting of the New York State Society of Certified Public Accountants, held a few days before:

It is not often that the words of those invaluable but self-effacing guardians of financial truth, the certified public accountants, reach public print. Their opinions deserve wider publicity, especially when what they have to say is as sensible and constructive as was the speech of Colonel Arthur H. Carter before the thirty-fifth annual meeting of the New York State Society of C. P. A.'s. More light, said Colonel Carter, will result in more confidence; the good will of the investing public can be bought at the small price of full disclosure of the essential facts of the corporations in which it invests. More and more do the country's stock exchanges realize that the public is entitled to complete knowledge about securities and insist that the companies whose stocks they list should publish accurate and revealing balance sheets and income statements.

There is much room for improvement in this direction, according to Colonel Carter, who looks forward to a time when all corporations shall before listing on the Stock Exchange be required to submit to an independent audit—in other words, to a time when every big-league financial game shall be played according to rules interpreted by a trained and impartial umpire. The investor on the whole does not understand the rules, and understands even less the vital function of those discreet and skeptical umpires—the public accountants, who owe it to themselves and to the public to explain a good deal louder and oftener the duties, responsibilities and importance of one of the least recognized professions.

Public accountants have been more or less diffident about explaining to the public the value of their work to managements of corporations and to holders of their securities because of the

natural fear that they will be regarded as acting from purely selfish motives. It is therefore all the more pleasing to find the editor of one of our leading newspapers encouraging accountants to make better known to the public the duties, responsibility and importance of their profession.

Control of Banks in Massachusetts

Long before Calvin Coolidge wrote his book on "Have Faith in Massachusetts," that state was looked on as one which was well in the van in devising and administering methods of control of financial and business enterprises under its jurisdiction. Some decades ago the Massachusetts Commissioner of Insurance attracted especial attention because of his effective opposition to an interlocking of a group of corporations in New Jersey which was intended to perpetuate a control of each other by the Prudential Insurance Company and a large trust company.

The critical banking situation of the last two years has caused renewed thought to be given in many quarters to the subject of bank examinations and control. The article by Mr. Hughes of our Boston office on "Statutory Requirements for Examinations of Banking Enterprises in Massachusetts Subject to State Control and Supervision," which appears in this issue of our JOURNAL, is therefore quite timely.

It is of especial interest that the Massachusetts law contains a requirement that every savings bank must have its accounts periodically examined by a certified public accountant.

Notes

The courts have repeatedly quoted from Colonel Montgomery's works on Auditing Theory and Practice and Income Tax Procedure in citing authority for a given principle or practice. A recent decision by the United States Circuit Court of Appeals for the Second Circuit in *Auto Sales Corporation v. Commissioner* contained references to writings of both Mr. Lybrand and Mr. Staub. In Judge Mack's opinion, he referred to Mr. Lybrand's paper on "The Accounting of Industrial Enterprises" read before the 1908 convention of the American Association of Public Accountants (published in Volume VII of the *Journal of Accountancy*) and to Mr. Staub's lecture on "Consolidated Returns" delivered at Columbia University (published in "The Federal Income Tax" by the Columbia University Press).

The tabulation by the National Association of Cost Accountants of the Stevenson Trophy ratings for the eleven months ended April 30, 1932, shows the Boston Chapter in the lead of the Association's 41 chapters. This is especially interesting to us because Mr. L. F. Blake of our Boston office is president of the chapter. Mr. John B. Moore of our Boston office is Director-in-Charge of Membership of that chapter of the Association.

Mr. John Conrad was recently elected president of the Rockford Chapter of the National Association of Cost Accountants.

At the annual meeting of the New York State Society of Certified Public Accountants held on May 9th, Mr. Staub was re-elected First Vice Presi-

dent and Mr. Sinclair as Treasurer of the Society. Both of them are now serving their third term in their respective offices.

Mr. C. S. Black has been appointed a member of a Special Tax Committee selected by the Los Angeles Chamber of Commerce. The Committee will be concerned with county and city taxes.

The April, 1932, Bulletin of the New York State Society of Certified Public Accountants, which was devoted to a discussion of some phases of taxation under the New York State law and the federal revenue statutes, contained an article on "Carrying Charges as Capital Expenditures," by Nathaniel B. Bergman, and an article on "The Minimum Provision of One Mill on Capital Stock under Article 9A of the New York State Franchise Tax Law," by Harold E. Bischoff.

The April issue of the *Petroleum World* contained an article by Mr. Myron J. Boedeker of our Los Angeles office staff entitled "Controlling Depreciation and Depletion Charges by Reducing Asset Values."

The possible desirability of adjusting fixed asset values in view of the radical change in economic conditions, and in particular the fall in the price level during the past two years, is becoming the subject of considerable discussion, and Mr. Boedeker's article is of interest in this connection.

Mr. Albert L. Jonah of the New York staff has recently passed the New York C. P. A. Examination.





